

ISLANDS AND THE E.U. SOME IMPLICATIONS FOR GOZO

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This paper describes the special economic strengths and weaknesses faced by small islands. As I shall show, there are very few strengths, and many weaknesses, which arise mostly from small economic and territorial size, insularity and peripherality. These weaknesses often threaten the viability of these territories. Reference will be made to the island of Gozo, which enjoys a number of strengths, notably its attraction as a tourist destination, but which also suffers from the weaknesses associated with its small size and double insularity.

There are about 20 island regions in the E.U. with a jurisdiction over 13 million inhabitants. The fact that these island regions contain together a relatively small population limits their political clout, and as a result their plight tends not to be given enough importance in major decisions affecting the European Union.¹ To make matters worse, data required to measure the economic conditions in which the island regions find themselves is often lacking. The paper argues that the predicament of islands would be given

1. On a positive note, however, it is worth mentioning in this regard that the Amsterdam Treaty contains a specific article on the need to reduce economic disparities of island regions (Article 158) and another on outermost regions, including the French Overseas Departments (Article 299), together with an accompanying declaration stating that "the conference recognises that island regions suffer from structural handicaps linked to their island status, the permanence of which impairs their economic and social development. The Conference accordingly acknowledges that Community legislation must take account of these handicaps and that specific measures may be taken, where justified, in favour of these regions in order to integrate them better into the internal market on fair conditions". Another important pronouncement on this subject is the document issued by the European Parliament (Committee on Regional Policy), in March 1998 – the so-called Viola Report on the *Problems of Island Regions in the E.U.*. The document is not however official E.U. policy, but can be viewed as the E.U. Parliament's thinking on island regions.

better consideration by the E.U. if statistical information about the conditions prevailing on the islands are collected and processed on an ongoing basis.

The Strength of being a Small Island

The strengths I will refer to in this section are economic ones, relating to the comparative advantages in tourism services and in financial services, and the flexibility in administrative possibilities of a small jurisdictions.

Comparative Advantage in Tourism

Islands are naturally attractive for tourists. This is evidenced by the high success rate that many small islands (not only those located in the tropics) have had in tourism inflows. This has enabled many small islands, including Malta and Gozo, to derive considerable income and to generate employment in tourist related services. Many small islands find themselves competing with much larger states for tourists and often succeed. Thus for example, Gozo competes with Spain and Greece for British, French, Scandinavian and German tourists. It cannot do this as successfully in manufacturing, because of the scale factor – but in the case of tourism, small scale operations need not constitute a handicap – on the contrary, they can offer advantages.

Financial Services

Many small islands attract offshore finance and manage to develop a thriving financial and banking sector. The successful ones exploit their special forms of jurisdiction, although not all of them are fully independent states. This advantage comes mainly from the ability of these jurisdictions to offer special fiscal attractions, secrecy and flexible instruments, which larger jurisdictions find it more difficult to offer. This strength is not available to islands like Gozo, which are part and parcel of a larger entity and do not enjoy special jurisdictional forms.

Other Strengths

There are many cases which can be used to back the argument that large scale is not necessary for economic success and that smallness is not fatal

in this regard.² In small islands for example, decision taking at government level tends to be more flexible than in larger territories.³ A point that is often cited as a strength is the ability to take quick decisions without excessive bureaucratic constraints. Gozo is a case in point. In recent years, the administration of Gozo has had a degree of autonomy, and several administrative decisions have been taken on the basis on information which is readily at hand due to the proximity of the authorities to the people – a direct result of the relatively small population and small territorial area.

Weaknesses

The major weaknesses faced by small islands relate to small economic size, insularity and peripherality, and environmental fragility.

Smallness Economic Size

The small size of the domestic markets constrains the production possibilities in the islands due to consequent inability to exploit economies of scale. In addition, the small territorial area gives rise to very limited natural resources endowments. As a result small islands tend to depend heavily on imports.⁴

Because of small economic size, overhead costs in small islands tend to be relatively high per capita, and this applies to administrative set-ups, including the government, and to infrastructural developments, including roads, ports, schools and so on.

Another problem is that small islands tend to depend on a narrow range of goods and services (notably tourism), and this carries the risks associated with having too many eggs in one basket.

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2. David Milne has listed a number of reasons why small jurisdictions tend to be successful. He refers to the success of the eight European Microstates to illustrate his point.. See Milne, D. "Economic Development in Small Jurisdictions" *Bank of Valletta Review*. No. 19 (1999).
 3. See Streeten, P. "The Special Problems of Small Countries" in Briguglio, L. and Kaminarides, J. *Islands and Small States: Issues and Policies*. Pergamon Press (1993).
 4. See Briguglio, L. "Small Island Developing States and their Economic Vulnerabilities" *World Development*. Vol. 23 (9), 1995.

Insularity, Double Insularity and Transport

Due to their insularity and peripherality, islands tend to experience relatively high transport costs⁵ and infrequency of scheduled trips, which effect movement of people and of goods. This is of course a very real problem for Gozo, which is a classic example of double insularity, since the island is on the peripherality of another small island.

Transport is especially important for islands because they depend heavily on external trade (imports and exports) and tourism. It is to be expected that transport costs associated with the external trade of small islands tend to be relatively higher per unit of export than in other countries. The main reason for this is that islands are separated by sea and are therefore constrained to use air and sea transport only for their imports and exports. Land transport is of course not an option for islands, and this reduces the possibilities available for the movement of goods and of people.

Apart from this, a small economy tends to require relatively small and fragmented cargoes, leading to high per unit costs. Moreover, the small size of small islands often exclude them from the major sea and air transport routes, which give rise to delays and constrains the ability of these states to exploit the advantages of modern and technologically advanced means of transport.

Another problem relates to uncertainties of supply. Insularity and remoteness from the main commercial centres may also give rise to additional problems, including unreliability in transport services. These create uncertainties in the provision of industrial supplies.

An additional problem is that when transport is not frequent and/or regular, enterprises in islands find it difficult to meet sudden changes in demand, unless they keep large stocks. Stock-keeping implies additional cost of production, associated with tied up capital, rent of warehousing and wages of storekeepers.

5. See Armstrong, H., Johnes, G., Johnes, J., and Macbean, A. "The Role of Transport Costs as a Determinant of Price Level Differentials between the Isle of Man and the U.K." *World Development*, Vol. 21 (2). 1993.

Environmental Fragility

As is well known, small islands tend to have a very fragile ecosystem. The pressures on the environment arising from the process of economic development in small islands tends to be much higher than in larger territories, as can be witnessed in the island of Gozo. For example, in many islands increased demand for residential housing and industrial production has given rise to a fast depletion of agricultural land.

Small islands also experience intense use of the coastal zone for tourism and marine related activities. They also tend to generate a relatively large amount of waste. These problems are of course also faced by countries undergoing a process of economic development, but their effect on small islands is likely to be much stronger due to their small size.

The process of economic development also brings with it an increased usage of energy, leading to polluting emissions.

Apart from the pressures of economic development, small islands also face problems associated with their geographical and natural characteristics. For example, islands tend to have a unique and very fragile ecosystem. The uniqueness, which is an outcome of the insularity of small islands, renders such islands as important contributors to global diversity. The fragility is the result of the low level of resistance of small islands to outside influences, endangering bird and other endemic species of flora and fauna.

A major environmental problem associated with islands is global warming and sea-level rise. The low-lying islands are faced with the prospect of proportionately large land, and therefore economic, losses as a result of these changes. Islands which are not low-lying, but depend on tourism, such as Gozo, would also face relatively large economic losses as a result of sea-level rise, since this would affect important pockets of land, notably the beaches.

Another problem in this regard relates to erosion. Small islands have a relatively large coastline in relation to the land-mass. Thus a relatively large proportion of land in such islands is exposed to sea-waves and winds, giving rise to a relatively high degree of erosion of land and soil

Islands and Peripherality

In the various European fora where islands are represented⁶ the authorities of the islands, and other spokesperson representing the islands, generally demand the following from the authorities of the European Union:

- Consideration of the specific problems of island, in particular those related to small economic size, transport and energy, all of which tend to lead to economic backwardness.
- Compensatory measures when E.U. policies have special negative effect on the islands.
- An improved commitment by the E.U. to mitigate costs associated with transport.
- Environment and energy policies which takes into consideration the special constraints in islands;
- Actions to promote awareness of the special conditions of islands.
- More coordination on the part of the E.U. with regard to policies and measure affecting island regions.
- A Community fiscal policy which is flexible enough to take account of the special constraints faced by islands.

Data Limitations

The major problem that arises when it comes to providing concrete evidence to explain the islands' weaknesses and constraints, and to back their demands for remedial action, relates to lack of data on island regions.

6. Hache, D. "The European Community and the Recognition of the Insular Fact" in *Utraperiferia*, Funchal Madeira, 1992. Some of these cooperative arrangements in the interest of E.U. island regions are described in Naucler, E. "Cooperation between Island Regions in Europe", in *Proceedings of the 3rd Conference on European Island Regions*, Mariehamn, Finland, June 1991, Council of Europe, 1992.

Generally speaking, the indicators most commonly used for eligibility criteria with regard to regional and structural funds are based on GDP per capita of unemployment rates, which in the case of islands sometimes understate or conceal the real problems.

The case for availability of data is even stronger when one considers that the low GDP per capita and high unemployment rates are a manifestation of underlying physical characteristics, notably small size and insularity.

The Need for Development of Appropriate Statistics

As stated, proper statistical information will help islands regions in many ways, most importantly because this will enable islands to make their case more forcefully and more credibly.

It is therefore emphasised that better and more appropriate data to assess the real conditions of the island regions of the E.U. are essential. This could be done through a central organisation, such as the Conference for Peripheral and Maritime Regions (CPMR), which operates as a pressure group within the E.U. and which has, in the past, been instrumental in promoting the interests of island regions.

The usefulness of statistical evidence can be demonstrated by the very useful work carried out by CPMR/Eurisle⁷ in a report published in 1997, where a quantitative exercise was carried out to measure the peripherality of some island regions within the E.U. This study clearly showed that island regions tend to be disadvantaged in this regard.

Conclusion

This paper has briefly described the special characteristics of the island regions of the E.U., which are the main cause of the economic disparities in which these regions find themselves. It has been argued that statistical information is required for strategies aimed to reduce such disparities.

7. *Statistical Indicators of Regional Disparities generated by Insularity and Ultraperipherality*, Eurisle (October 1997).

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Reference has been made to the 1997 Eurisle/CPMR report which is considered to be a very important step in the right direction. Although the report focused on one aspect of island problems, namely transport, it showed that it is possible to provide original statistics, with the aim of backing the demands of the island regions and to enable such regions to master more support for their demands.

The study has also argued that by cooperating between themselves, island regions could facilitate the gathering and transfer of information to a central organisation for data processing and interpretation, to promote the regions' own interests, rendering their demand for disparity reductions more credible.

APPENDIX A NOTE ON THE GOZITAN ECONOMY

The Gozitan economy was, until a few decades ago, characterised by very high unemployment and emigration rates. In recent years the economy expanded considerably, with the total labour force exceeding 10,000 persons.

The most important differences between the Gozitan economy and that of mainland Malta are that in Gozo there is a higher rate of self-employment, relatively larger agriculture and fisheries sectors and a relatively smaller manufacturing sector. Traditionally, the unemployment rates in Gozo were higher than was the case in mainland Malta.

The Agricultural and Fishing Sectors

Agriculture. The agriculture sector in Gozo is very fragmented, with about 82% of all holdings being smaller than one hectare. However, because of its geological formation, Gozo is more fertile than mainland Malta. The number of full-time farmers in Gozo has decreased constantly in recent decades, and their number is now about 200. There are about 5000 part-time farmers. Practically all agricultural workers are self-employed with only about 50 of them working as hired employees.

The agriculture sector in Gozo can be divided into three categories.

- *Livestock rearing and dairy farming.* Gozo at present produces about 25% of all milk supply in the Maltese islands.
- *Vegetable and forage production.* This activity is important for household consumption and as input for economic activities such as food processing and livestock rearing.
- *Horticulture.* This is relatively underdeveloped in Gozo but there seems to be a good potential for its development.

Fishing. The fishing industry in Gozo does not employ many people on a full time basis, and it cannot be considered as a major industry in Gozo. However it is an important supplier of food for local consumption and for the tourist industry.

The major problem of agriculture and fishing in Gozo relates to inefficient production due to inefficient methods often rely on tourism, and sea-level rise. This is to an extent associated with the fact that a very large proportion (about 40%) of Gozitan farmers and fisherman are over 50 years of age.

The Construction and Quarrying Industries

The construction and quarrying industries in Gozo creates considerable full-time and part-time employment in Gozo. Many Gozitans participate in construction activity by building or helping to build their own houses. The construction and quarrying industries have a high multiplier effect since they contain a high proportion of inputs (labour and stone) which are domestically based. In addition they generate a high level of demand from other industries such as woodwork, and activities related to the finishing of the building (plumbing and electricity installation, plastering, tile-laying, painting and others).

The major problems faced by the Gozitan construction and quarrying industries is that the basic raw material, namely stone, necessitates quarrying which tends to damage the environment, and the construction activity itself produces inert waste which also creates environmental problems. In addition, new building is associated with increased demand for land, which if allowed to proceed unabated, would intrude further into agriculture land and areas of scenic beauty, with consequent environmental problems.

The Manufacturing Sector

The manufacturing sector in Gozo is relatively small. About 10% of the Gozitan gainfully occupied population work at the Xewkija Industrial Estate. Many others work in craft related manufacturing. The manufacturing sector is made up of two main segments, namely (i) factory based industry and (ii) cottage industry.

The factory based industry is mostly located at Xewkija, and may be classified in three categories, which are:

1. *Low technology operations.* These normally use low-skill labour, employing mostly females, and tends to be export oriented. These indus-

tries include the clothing and electronics manufacturing. The clothing industry, which employs about 40% of the factory-based manufacturing, may not have a promising future, since it faces continuous competitive threats from countries with lower labour costs;

2. *Domestically oriented manufacturing.* This utilises imported material as input, such as the furniture industry. This industry employs a relatively high proportion of skilled labour, mostly man. This industry is also under threat and to an extent survives behind a wall of protective levies;
3. *Manufacturing utilising primary products.* This includes the agro-industry, mostly food-processing.

The basic problem faced by manufacturing industry in Gozo relates to the very small domestic market which necessitates exports and Gozitan producers have therefore to compete in the international market. This should stimulate efficiency, but Gozo faces serious constraints in this regard.

Another important problem, which can be mitigated through an industry support policy, relates to transport costs. Because of the insularity problems (double insularity in the case of Gozo) industry incurs relatively high per unit costs on imported material and on exported finished products.

The Gozitan manufacturing sector is also negatively affected by unreliable electrical supply and a limited pool of human resources from which to draw suitable administrators.

Cottage industry

Cottage industry is widespread and a well established activity in Gozo. It includes production of knitted woollen garments and carpets (often utilising the wool of sheep bred in Gozo) and the production of cheeselets, utilising milk from Gozitan livestock. Another popular cottage industry is lace-making. The products of this industry are in demand by tourists.

The Services Sector

An important characteristic of the economy of Gozo is its dependence on tourism. Gozo attracts about many thousands of Maltese visitors and about half a million international tourists (mostly day-trippers) yearly.

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Economic activity associated with tourism generates considerable income and employment to the Gozitans, since, as is well known, tourism tends to have a high multiplier effect. In the case of Gozo this effect is likely to be higher than in mainland Malta, since a high proportion of tourism expenditure in Gozo goes on food, accommodation and transport, in which Gozitans tend to have a high stake.

There are four types of tourists visiting Gozo, namely:

- International tourists who spend most of their visit in Gozo;
- International tourists who visit Gozo as day-trippers;
- Maltese visitors who visit Gozo for a few days annually;
- Gozitan emigrants, who sometimes stay in Gozo for a few months, mostly in summer.

In 1997, there were 1414 licensed hotel and guest-house beds and 1498 licensed holiday-apartment beds in Gozo. The annual occupancy rates tended to be rather low averaging about 36%, and this was principally due to the low turnout in the winter months. There are about 600 full time jobs in hotel and catering establishments and many other jobs in economic activities related to tourism.

Some problems associated with tourism in Gozo are that Gozo is not marketed adequately as a separate tourist destination and that the transport between the airport and the Gozitan hotels, and the inter-island transport in general, is not properly developed.

Another problem relates to seasonality. The bulk of tourists visit Gozo during the summer months, leading to a very high level of demand in summer and very slack demand in the winter and shoulder months.

Other Service Activities

There are other service activities in Gozo, including transport and communications, banking, wholesale and retail trades, and personal services such as plumbing, plastering, painting and maintenance work.

These services are mainly in demand by the Gozitans themselves, but such services are also utilised by the tourism industry.

Major Problems faced by the Gozitan Economy

The major problems facing the Gozitan Economy arise from small size and insularity

Small Economic Size

The small size of the Gozitan economy can be associated with limited natural resource endowments, leading to a relatively high import content; a very small domestic market, requiring external markets for economic development; severe constraints on the ability to exploit economies of scale; and limited opportunities for specialised skills, leading to brain and skill drains.

In addition, there are a number of problems associated with public administration. These include the small manpower resource base from which to draw experienced and efficient administrators, indivisible administrative functions leading to high overhead costs, and difficulties related to recruitment, promotion and utilisation of employees.

Double Insularity

Gozo suffers from what is known as double insularity, since it is on the periphery of another small island. This necessitates air and sea transport with mainland Malta and with the rest of the world. The transport connections between Malta and Gozo are mainly by ferry and by helicopter. The Mgarr Gozo and Cirkewwa Malta ports are those mostly used for passenger transport, while Sa Maison Malta port is generally used for cargo transport. There are grave problems with the Cirkewwa and Mgarr ports, both being too small, and lacking passenger facilities. Cirkewwa, in addition, is unsafe in inclement weather. Passenger transport to Gozo is rendered more problematic as a result of inadequate public transport to Cirkewwa.

Problems related to passenger transport cause considerable discomfort to Gozitan employees and students who work or study in Malta and have to use the service frequently, sometimes daily. In the case of industrial supplies and merchandise transport, the problems are mostly associated

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with time-delays and unreliability of transport services. These problems give rise to additional costs for Gozitan producers.

Even with improvements in inter-island transport, Gozitan producers will probably still face additional costs associated with the double insularity of the island, due to fact that imported commodities are normally landed in mainland Malta and exports are also dispatched from Malta. Similarly, traffic related to tourism is centred in mainland Malta, where the international airport is situated.